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Wholesale Trade: The Year 2007 in Review

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Wholesale Trade: The Year 2007 in Review

Karim El Hassani, Distributive Trades Division

Summary

The wholesale trade sector,[1] increasingly a driving force in Canada's economic growth, expanded at a strong pace for the fourth consecutive year in 2007.

Wholesale sales last year amounted to $517.8 billion, up 5.5% from 2006, a slightly faster pace than the growth the year before. It was the fourth year in a row that the rate of growth surpassed 5.0%.

However, if the impact of lower prices was removed, sales actually increased 7.2%, indicating that the improved performance in 2007 was due mainly to a higher volume of sales.

Last year's performance was due, among other factors, to the "other products" sector, which posted the strongest growth in wholesale trade and had its best performance since 2003. Sales in this sector grew 10.5%, partly because of increased sales of agricultural chemicals and other farm supplies, as well as sales of animal feed.

In terms of sales, the largest sector, machinery and electronic equipment, recorded an above-average growth rate of 7.0%. However, the second and third largest sectors— automotive products, and food, beverages and tobacco products—both had growth rates below the overall average.

Provincially, Alberta wholesalers had a growth rate below the national average for the first time since 2002.

On the other hand, the rate of growth accelerated in Saskatchewan, Newfoundland and Labrador, and Manitoba. Sales in Saskatchewan rose 19.6%, the fastest rate of growth since this statistical series began in 1993 and the best performance among the provinces.

Sales in Newfoundland and Labrador grew 14.5% to a record high at almost $3.0 billion. Sales in Manitoba increased 11.8%.

While slightly higher than 2006 levels, the rate of growth for wholesalers in Ontario was below the national average for the fifth consecutive year. As a result, Ontario's share of national sales continued to slide, although it still represented just over half of the total.

Quebec wholesalers experienced a slight recovery in 2007, with the pharmaceuticals trade group still the main source of growth.

This study reviews the performance of the wholesale trade sector nationally and regionally, along with some of the key factors affecting last year's performance. (Unless otherwise specified, all data are expressed in current dollars, i.e. data are not adjusted for inflation.)

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1. In this study, the wholesale trade industry is divided into seven trade group sectors all subdivided into one or many trade groups following the 2007 North American Industrial Classification System (NAICS). This is the same classification used for the release of the Monthly Wholesale Trade Survey.

Wholesalers: A source of economic growth

Midway between producers and retailers, wholesalers are playing an increasing key role in Canada's economy, given the sustained growth in their activities. Since 2002, the sector has experienced strong growth in gross domestic product (GDP), as well as in the number of jobs created and sales. As a result, it has made a significant contribution to the Canadian economy.

Between 2002 and 2007, gross domestic product (GDP) for the wholesale trade sector increased at an annual average rate of 5.0%, nearly twice the growth rate of 2.7% for the economy as a whole.

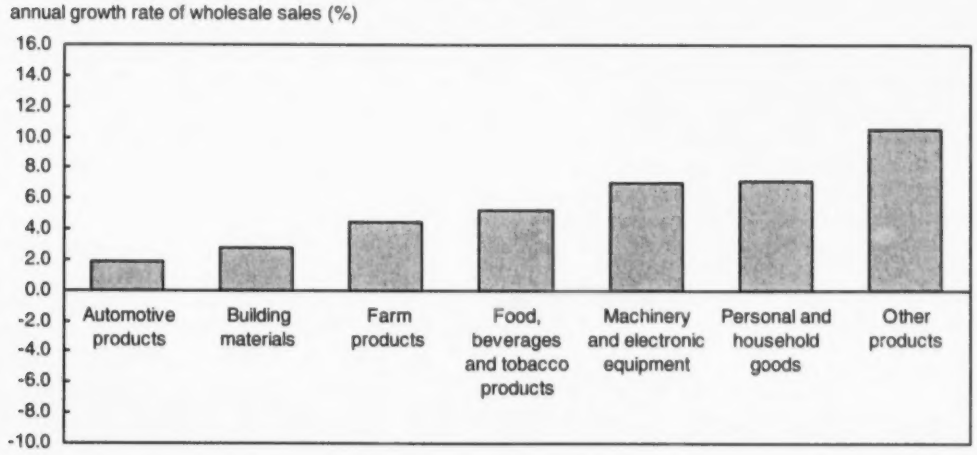
Wholesale industries were also a source of job creation in Canada. In 2007, employment in the sector increased 2.4% with almost 759,000 workers, representing 5.3% of total employment. In addition, the weekly remuneration of wholesale employees rose by 4.4% to just over $910.00 per week. Weekly earnings in the wholesale sector were almost double those of retail trade and almost equal to those of the manufacturing sector.

Between 2002 and 2007, the sector's total sales grew at an average annual rate of 5.4%. In 2007, wholesale sales reached $517.8 billion, up 5.5% from 2006, slightly above the growth rate the year before. However, removing the impact of lower prices, the growth rate was actually 7.2%, suggesting that last year's improved performance was due mainly to higher sales volume.

Machinery and electronic equipment, the largest sector in terms of sales, recorded a growth rate of 7.0%. However, the second and third largest sectors — automotive products, and food, beverages and tobacco products— both had growth rates below the overall average.

Three sectors were responsible for two-thirds of the wholesale growth. The "other products" sector experienced the fastest growth in sales in 2007, followed by the personal and household goods sector. The machinery and electronic equipment sector was also a major contributor to the growth.

Chart 1 The three sectors with the highest growth rates were also responsible for over two-thirds of the growth in 2007



Source: Statistics Canada, CANSIM table 081-0007.

This performance was the result of business opportunities leading to many challenges for Canadian wholesalers. Globalization, the liberalization of trade and off shoring forced the wholesale trade sector to adapt, restructure and innovate to improve its competitiveness. In the context of globalization and Canada's open market, this sector's performance is increasingly tied to the global economic situation, since it acts as a go-between, supplying the domestic market with imports and the world market with exports.

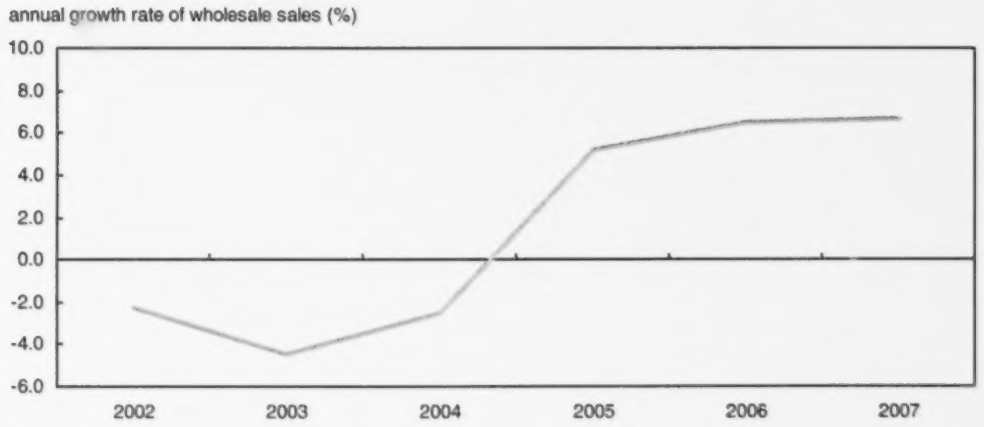
Machinery and electronic equipment sector posts another strong performance

The machinery and electronic equipment sector, the largest of the seven wholesale sectors, accounted for more than one-fifth of sales in 2007. Wholesalers in this sector sold $110.4 billion worth of goods, up 7.0% from 2006.

However, the sector showed signs of slowing as sales increased 8.6% in 2006 and 11.0% in 2005. They were the two strongest years during the past decade. Nevertheless, sales growth in this sector was considerably better than the overall wholesale growth rate.

Last year's slowdown was due, among other reasons, to reduced investment by mining and oil and gas extraction companies. Statistics Canada's most recent Capital and Repair Expenditures Survey indicated that investment in this sector declined 6.4% in 2007.

Chart 2 Sales of computers and other electronic equipment posted their best performance in recent years



Source: Statistics Canada, CANSIM table 081-0007.

The three trade groups in the machinery and electronic equipment sector contributed equally to the growth in 2007.

The largest group, machinery and equipment, generated sales of over $54.5 billion, up 7.0% from 2006. It was the fourth year in a row that sales gains were 7.0% or more. Increased investment by companies in the construction, public service, transportation and warehousing sectors, along with investment by governments, offset reduced investment by mining, oil and gas extraction companies.

The second largest group, computers and other electronic equipment, generated sales of over $31.6 billion, up 6.7% in 2007. This was the largest annual increase since 1999. Sales in this group have rebounded since 2005 after a four-year period (2001 to 2004) when they slumped more than 16.0%.

This improvement occurred despite a steady drop in prices. Last year's performance was the result of strong demand for personal computers.

Wholesalers in the third group, office and professional equipment, had sales amounting to $24.3 billion, up 7.4%.

Personal and household goods sector: Consumer demand drives sales

The personal and household goods sector consists of three trade groups: apparel, household and personal products, and pharmaceuticals. In 2007, its sales surpassed $77.2 billion, up 7.2% from 2006.

The performance of this sector, which accounted for 15.0% of total wholesale sales, depends largely on consumer spending. Strong employment and income levels, combined with low inflation and interest rates, created favourable conditions for consumers.[2] As a result, consumer spending in 2007 experienced its strongest growth since 1985.

Sales of pharmaceuticals have been the main source of growth in this sector since 1998. Last year, wholesalers in pharmaceuticals had sales of nearly $34.9 billion, up 7.9%, due in part to a 10.1% increase in the sale of both prescription and non-prescription drugs.

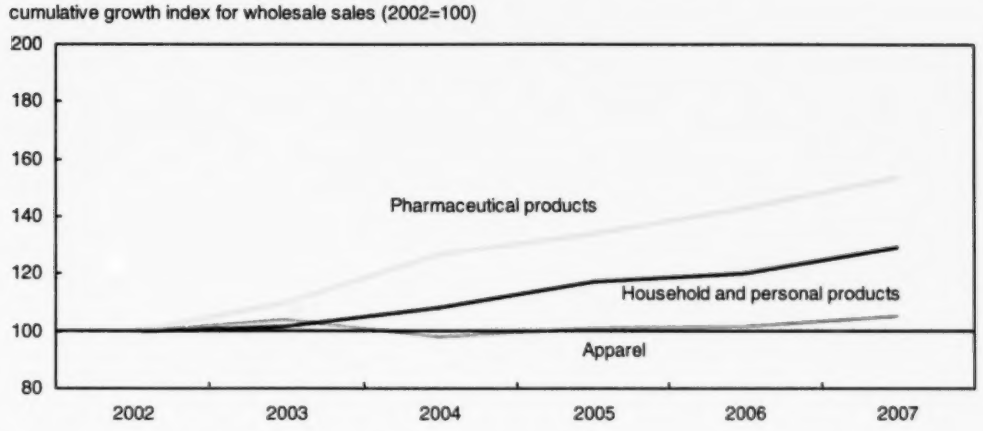
The number of prescriptions, both new and renewals surged 8.2% in 2007 compared with a rate of 5.6% in 2006. Between October 2006 and September 2007, Canadians spent more than $20.7 billion on prescription drugs, a total of 448 million prescriptions. This was an average of about 14 prescriptions for every Canadian,[3] compared with about 12 prescriptions in 2005.[4]

2. See Philip Cross, "Turbulent stability: Canada's economy in 2007," *Canadian Economic Observer*, April 2008, Statistics Canada Catalogue No. 11-010-XIB, http://www.statcan.ca/english/freepub/11-010-XIB/00408/feature.htm (accessed April 10, 2008).

3. See IMS Health (Canada), *What's topping the charts in prescription drugs this year?*, www.imshealthcanada.com (accessed January 28, 2008).

4. See Guillaume Dubé, "Competing for the retail drug market," *Analysis in Brief*, September 2006, Statistics Canada Catalogue No. 11-621-M2006048, http://www.statcan.ca/english/research/11-621-MIE/11-621-MIE2006048.htm (accessed January 28, 2008).

Chart 3 Sales of pharmaceutical products have been the main source of growth in the personal and household goods sector since 2002



Source: Statistics Canada, CANSIM table 081-0007.

In the household and personal goods group in 2007, sales rose 7.3% to just over $33.0 billion, fed by a strong housing market. According to Canada Mortgage and Housing Corporation, housing starts remained robust for the seventh straight year, while the Canadian Real Estate Association announced record sales in the resale market. New owners or people who move tend to spend more on household goods than other consumers, especially during the three years following their move.[5]

Sales by apparel wholesalers rose 4.0% to $9.4 billion in 2007 even as prices for clothing fell. This growth coincides with an increase in imported clothing and shoes which reached record sales of $10.6 billion in 2007.

Sales of "other products" climbed for wholesalers

The "other products" sector consists of a diverse group of products including agricultural chemicals, fertilizers, and other farm supplies, as well as recycled materials and paper products.

In 2007, this sector posted its best performance in the past four years, with sales exceeding $63.6 billion, up 10.5% over 2006. Since 2002, sales by this sector have risen at an average annual rate of 7.6%. Last year, it accounted for 12.3% of total wholesale sales.

The sector's performance in 2007 can be explained mainly by the rise in sales of agricultural chemicals and other farm supplies, and animal feed.

Wholesalers in the "other products" sector continued to benefit from a world economic situation characterized by strong demand for agricultural products. Canadian farmers also benefited from this situation, receiving higher prices for their crops.

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5. See Jane Lin, "On the move with homebuyers: Shopping for furniture", *Analysis in Brief*, May 2004, Statistics Canada Catalogue No. 11-621-MIE2004012, http://www.statcan.ca/english/research/11-621-MIE/11-621-MIE2004012.htm (accessed June 13, 2007).

According to the Farm Product Price Index (FPPI), prices for Canadian crops including cereals, oilseed and special crops were up 19.3% in December 2007 compared to December 2006.

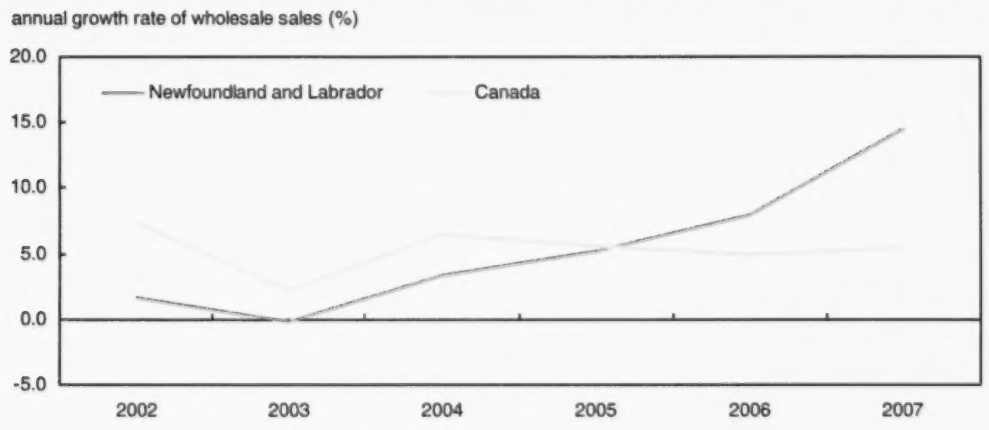
The sharp rise in Canadian and world prices of farm products stimulated agricultural production and consequently, the increased use of fertilizers. This in turn substantially drove up world prices for fertilizers and agricultural chemical supplies. Between 2006 and 2007, the prices for fertilizers in Canada have surged 22.7%. This jump is reflected in the value of Canadian exports of fertilizers and fertilizer materials, which rose 21.7% in 2007.

Atlantic region: Rebound after lacklustre 2006

Wholesalers in the Atlantic region enjoyed their best growth in sales since 1999, thanks to a strong performance among wholesalers in Newfoundland and Labrador and Prince Edward Island.

Sales in the four Atlantic provinces in 2007 reached $15.3 billion, up 5.5%, rebounding from lacklustre growth of 0.4% in 2006. Sales rose in all four, but those in Newfoundland and Labrador and Prince Edward Island surpassed the national average growth rate.

Chart 4 Newfoundland and Labrador wholesalers post a second year with growth rate over national average



Source: Statistics Canada, CANSIM table 081-0007.

In Newfoundland and Labrador the economy surged 9.1% in 2007, far outstripping the growth in the other provincial economies. Increased oil and mineral extraction activities, combined with strong world commodity prices, became the catalyst for growth, more than three quarters of which could be attributed to mining activities. This growth also contributed to wholesalers' strong growth.

Oil extraction in the province leapt ahead, thanks to a virtually trouble-free year on its many oil platforms. The second full year of production at the Voisey's Bay nickel mine was also a big contributor.

Wholesale sales in Newfoundland and Labrador soared 14.5% to $3.0 billion. These results were due mainly to increased sales in the food, beverages and tobacco products sector and the

machinery and electronic equipment sector. These two sectors accounted for almost two-thirds of total sales in the province. The increase in the machinery and equipment group coincided with the expansion of the White Rose project.

Wholesalers in Prince Edward Island reported a 6.7% gain, halting a downward trend that started in 2005. Sales in the machinery and electronic equipment sector jumped 15.5%. This sector alone accounted for one-half of the province's wholesale growth. Although responsible for the downturn in sales in 2006, the food, beverages and tobacco products sector saw sales increase 5.9% in 2007; this offset some of the 32.5% decline this sector posted in 2006.

In New Brunswick, wholesale sales rose 4.5% in 2007, thanks to a 13.5% gain in the food, beverages and tobacco products sector and a 6.3% hike in the personal and household goods sector. It was the province's best year since 2000.

After a decline in 2006, wholesale sales in Nova Scotia rose 2.5% to $6.7 billion, on the strength of the machinery and electronic equipment sector. Without gains in this sector, sales in Nova Scotia would have fallen. Sales fell in four other key sectors: food, beverages and tobacco products (-0.9%); personal and household goods (-2.9%); automotive products (-1.6%); and building materials (-1.8%).

Quebec: Growth slightly below the national average

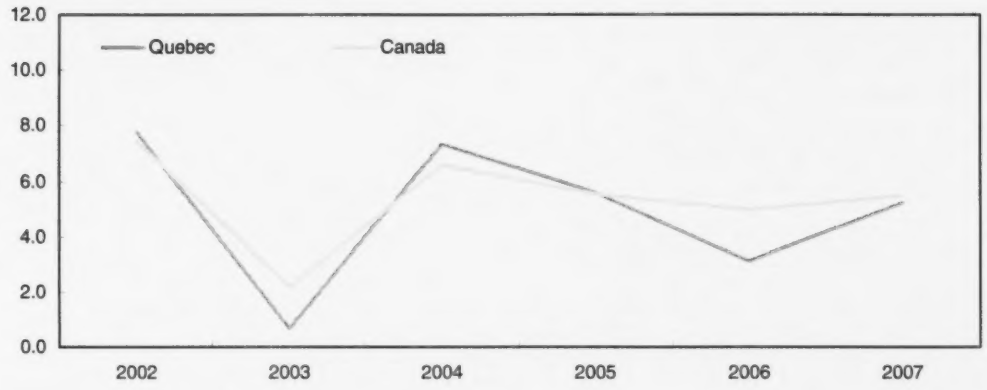
Quebec wholesalers posted sales of nearly $96.8 billion in 2007, up 5.2%. This gain was slightly lower than the national average, but represented a rebound from 2006.

A number of sectors improved their sales growth, including the personal and household goods sector, the food, beverages and tobacco products sector, as well as the "other products" sectors.

In contrast, sales slowed in the farm products and building materials sectors. There was also a decline in sales in the automotive products sector where sales were restrained by the downturn in sales of the motor vehicle group (-1.6%) and by the stagnating sales in the auto parts and accessories group (+0.1%).

In 2007, sales in the Quebec personal and household goods sector rebounded to just over $22.1 billion, an 8.2% increase. All groups in this sector contributed to this performance, but the pharmaceuticals group continued to generate the largest share of growth. Sales by pharmaceuticals wholesalers in Quebec reached $11.1 billion, accounting for one-third of total Canadian sales by the sector last year.

Chart 5 Quebec has remained close to national growth rates in recent years



Source: Statistics Canada, CANSIM table 081-0007.

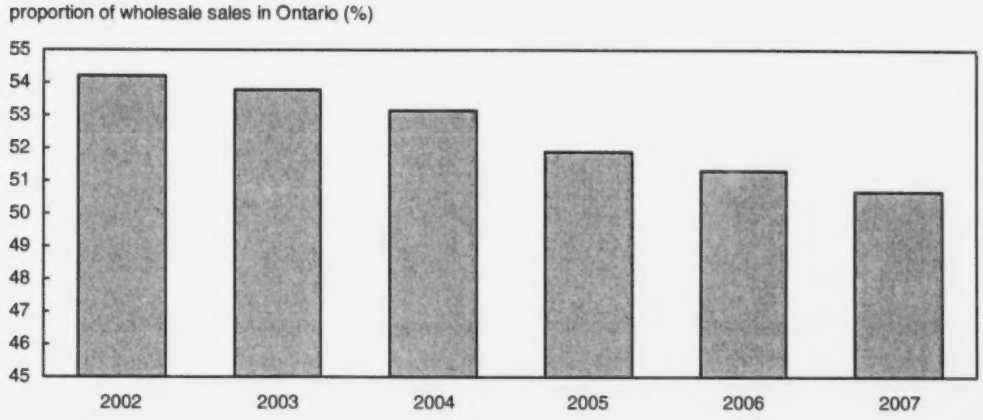
Ontario: Fifth straight decline in proportion of national sales

Sales of Ontario wholesalers have continued to represent more than one-half of Canadian wholesale sales in recent years. The performance of this province has thus had a major influence on the national growth rate although its share of national sales declined for the fifth consecutive year. Last year, its wholesalers represented 50.7% of the total, compared with 54.2% in 2002.

Wholesale sales in Ontario amounted to $262.5 billion, up 4.2% from 2006. This was Ontario's best performance since 2004. Even so, it was the fifth year in a row in which growth in sales fell below the national average.

Last year's results were driven by strong performance in the machinery and electronic equipment sector and the "other products" sector. These increases were offset by declines in the building materials sector.

Chart 6 Ontario's share of total Canadian sales drops for the fifth straight year



Source: Statistics Canada, CANSIM table 081-0007.

The machinery and electronic equipment and "other products" sectors continued the strong growth posted in 2006. Sales rose 7.3% to $54.1 billion in the Ontario machinery and electronic equipment sector, thanks to an 8.7% gain in the machinery and equipment trade group.

Sales in the Ontario "other products" sector improved 7.9% to more than $30.5 billion.

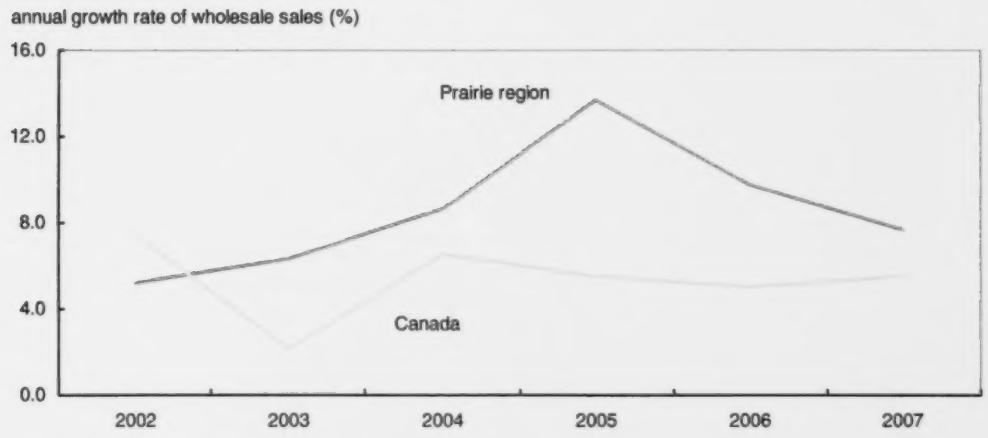
The rate of growth more than doubled in Ontario's automotive products sector. Sales rose 3.1% to $71.5 billion last year after a 1.3% gain in 2006.

Ontario wholesalers accounted for over 75% of total Canadian sales in the automotive products sector. Over two-thirds of Ontario wholesale sales in this sector went to the Canadian market. Exports went mainly to the United States. Improved sales by motor vehicle wholesalers can be explained by new motor vehicle sales in Canada that were at their highest level since 2002.

The Prairies: Saskatchewan's best performance since 1993

In recent years, wholesalers in the Prairies have shown higher growth rates than those in other regions of Canada. The last time wholesalers in the three Prairie provinces of Alberta, Manitoba and Saskatchewan posted a rate of growth below the national average was in 2002. Since then, sales have risen at an average annual rate of 9.2% compared with 5.0% nationally. As a result, the region's share of total sales went from 14.1% in 2002 to 17.2% in 2007.

Chart 7 Growth rate of sales in the Prairies exceeds the national average for fifth straight year



Source: Statistics Canada, CANSIM table 081-0007.

In Saskatchewan, sales were up 19.6% in 2007, the strongest growth among the provinces. Sales were driven mainly by a strong performance in the "other products" sector, which soared 38.0%, as well as by the machinery and electronic equipment sector. Both sectors benefited from spending by farmers.

Higher prices for fertilizers and agricultural chemical supplies coupled with higher demand induced increased sales in the "other products" category. Sales reached $5.1 billion, up by more than $1 billion from 2006.

In addition, with the sharp rise in prices for agricultural commodities, farmers invested heavily in agricultural equipment, machinery and supplies. This resulted in a 16.1% gain in sales for the machinery and equipment group in 2007.

Manitoba wholesalers sold over $12.6 billion in merchandise, an 11.8% increase from 2006 and their best performance since 1996. Despite performing above the national average, there were considerable differences among the various trade groups. The province's overall strong performance was due to the healthy growth in sales in the "other products sector" (+35.0%) and in the machinery and equipment sector (+16.7%) as growth was below 4%, or even negative, in the other sectors.

In the last few years, Alberta has enjoyed unprecedented economic growth, thereby enabling wholesalers to record strong growth in sales. However, last year wholesalers experienced a slowdown in sales.

Sales in Alberta rose 4.5% to more than $61.7 billion in 2007, following a 16.2% growth rate in 2005 and a 13.0% gain in 2006. Last year's rate of growth was below the national average for the first time since 2002.

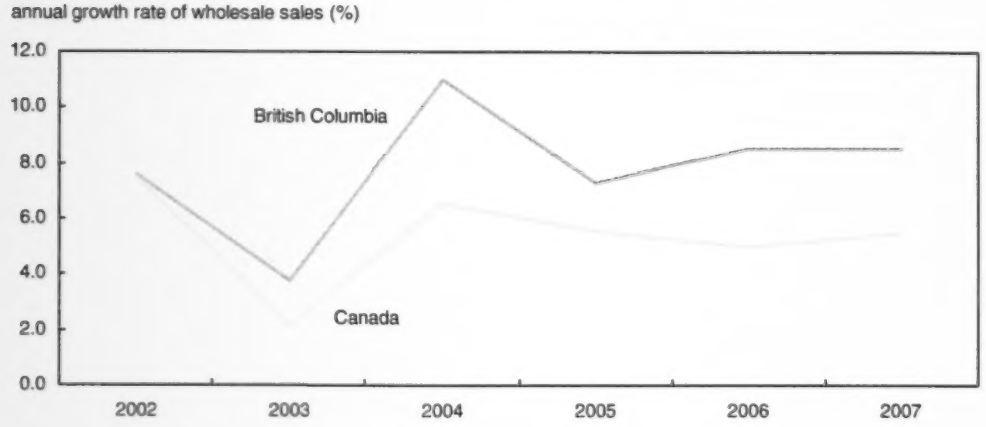
This slower growth reflected a downturn of 7.5% in 2007 in the automotive sector following exceptional growth of 30.3% in 2006. Sales of new vehicles in Alberta increased only 3.3% in 2007, one-third of their pace in 2006.[6]

Moreover, the growth rate in sales in the machinery and electronic equipment sector slowed from 16.1% to 5.1% as a result, among other reasons, of a downturn in investments by the mining and oil and gas extraction companies. The growth rate in building materials also fell from 18.1% in 2006 to 9.5% in 2007.

British Columbia: Sixth year above-average annual growth rate

Sales in British Columbia's wholesale sector increased 8.6% last year to $53.5 billion, the sixth straight year of growth above the national average. Since 2002, sales have risen at an average annual rate of 7.8%.

Chart 8 British Columbia exceeds national growth rate for sixth year



Source: Statistics Canada, CANSIM, table 081-0007.

All wholesale sectors in British Columbia posted growth in 2007, but key contributions were made by three sectors: a 13.6% gain in food, beverages and tobacco products; a 20.9% surge in personal and household goods, the strongest growth of all sectors; and a 10.9% increase in "other products".

Sales increased in 12 of 15 trade groups in British Columbia. The strongest performance was in the pharmaceuticals group, with growth of 22.3%. However, the impact of this group remains limited as it represents only 3.1% of the province's total sales.

The lumber group, in which a large portion of sales is destined for the American market, experienced a decline in sales for the third consecutive year. In 2007, Canadian lumber and related products exports fell 21.8% as a result of the housing slump in the United States.

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6. See *New Motor Vehicle Sales*, Statistics Canada Catalogue No. 63-007-X, December 2007, http://www.statcan.ca/english/freepub/63-007-XIE/63-007-XIE2007012.pdf (accessed February 3, 2008).

Strong year for wholesalers in the North

Nunavut, Northwest Territories and Yukon wholesalers' sales growth surpassed the growth of almost all provinces in 2007. Moreover, wholesale sales in Northwest Territories were even higher than those in Prince-Edward-Island.

Northwest Territories wholesale sales increased by 25.2%. It was the personal and household goods sector which showed the strongest growth. The contribution to total growth of the province for this sector was 68.5%.

Diamond production jumped in the Northwest Territories as the economy surged 13.1%, much faster than the 2.9% gain in 2006. Construction activity continued unabated at the Snap Lake mine site. Three of Canada's four diamond mines are located in the Northwest Territories.

Table 1 Wholesalers' sales by trade groups, Canada, 2006 and 2007

Trade group	Sales		Annual growth rate
	2006	2007	
	$ thousands		%
Farm products	**5,372,219**	**5,609,215**	**4.4**
Food, beverages and tobacco products	**84,771,670**	**89,185,378**	**5.2**
Food products	77,119,314	81,588,986	5.8
Alcohol and tobacco	7,652,356	7,596,392	-0.7
Personal and household goods	**72,088,076**	**77,247,926**	**7.2**
Apparel	9,019,786	9,377,626	4.0
Household and personal products	30,769,092	33,005,225	7.3
Pharmaceuticals	32,299,198	34,865,075	7.9
Automotive products	**93,894,890**	**95,682,214**	**1.9**
Motor vehicles	75,439,732	77,001,348	2.1
Motor vehicle parts and accessories	18,455,158	18,680,866	1.2
Building materials	**73,931,051**	**75,999,724**	**2.8**
Building supplies	42,997,320	45,330,287	5.4
Metal products	17,711,135	17,774,934	0.4
Lumber and millwork	13,222,596	12,894,503	-2.5
Machinery and electronic equipment	**103,222,936**	**110,440,625**	**7.0**
Machinery and equipment	50,965,959	54,540,551	7.0
Computer and other electronic equipment	29,631,878	31,604,005	6.7
Office and professional equipment	22,625,099	24,296,069	7.4
Other products[1]	**57,574,665**	**63,611,271**	**10.5**
Total	**490,855,506**	**517,776,353**	**5.5**

1. The 'other products' sector consists wholesalers of a diverse group of products such as agricultural chemicals and fertilizers and other farm supplies, as well as recycled materials and paper products.

Note: Components might not add up to the total due to rounding.

Source: Statistics Canada, Monthly Wholesale Trade Survey, CANSIM table 081-0007.

Table 2 Wholesalers' sales by province and territory, 2006 and 2007

	Sales		Annual growth rate
	2006	2007	
	$ thousands		%
Newfoundland and Labrador	2,595,481	2,972,973	14.5
Prince Edward Island	448,461	478,365	6.7
Nova Scotia	6,582,847	6,748,830	2.5
New Brunswick	4,859,108	5,075,876	4.5
Quebec	91,972,996	96,762,743	5.2
Ontario	251,943,254	262,522,972	4.2
Manitoba	11,271,583	12,603,699	11.8
Saskatchewan	12,105,614	14,479,961	19.6
Alberta	59,073,352	61,725,125	4.5
British Columbia	49,328,297	53,547,718	8.6
Yukon	118,432	140,127	18.3
Northwest Territories	532,972	667,049	25.2
Nunavut	23,114	50,916	120.3
Canada	**490,855,506**	**517,776,353**	**5.5**

Note: Components might not add up to the total due to rounding.
Source: Statistics Canada, Monthly Wholesale Trade Survey, CANSIM table 081-0007.